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CURRENT INTELLIGENCE WEEKLY SUMMARY

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****23 October 1958****PART I****OF IMMEDIATE INTEREST****TAIWAN STRAIT SITUATION**

The Chinese Communists' resumption of shelling against Chinmen appears to have the primary political objective of reminding the United States that the Communists are unwilling to acquiesce in the development of a static situation in the strait area. Since 6 October, when Defense Minister Peng Te-huai declared the first cease-fire, Peiping appears to have been marking time in anticipation of American concessions. In his extension of the cease-fire on 12 October, three days before the 81st Sino-American meeting in Warsaw, Peng Te-huai declared that a reason for the continued suspension of shelling was "to see what the opposite side is going to do." The Communists apparently see no modification in the American position, either in public statements in the United States or in Ambassador Beam's stand at Warsaw, despite the cease-fire which the United States insisted was the main condition for beginning negotiations.

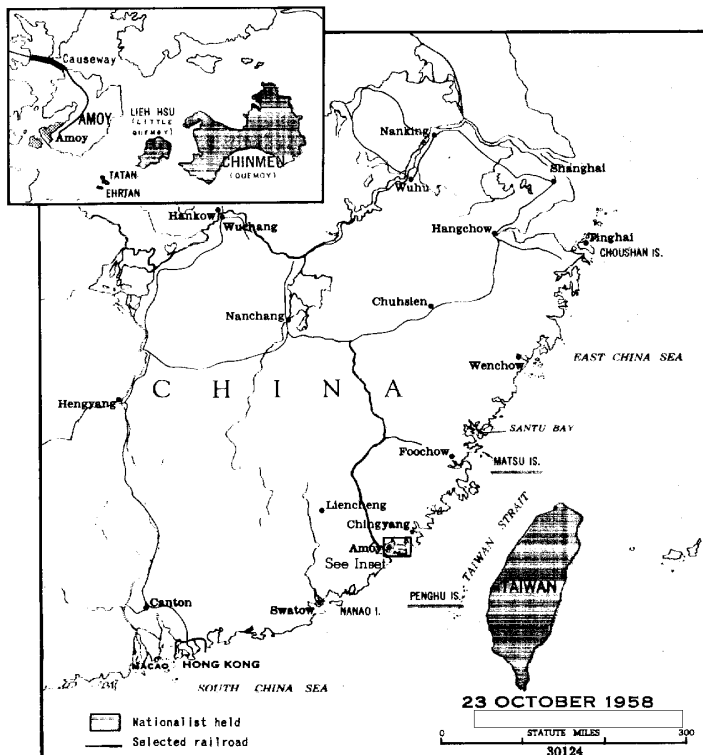
In spite of Peiping's charges of American escort activity as the immediate cause of the resumption of the bombardment, it appears that the cancellation was deliberately timed to coincide with the

visit of Secretary Dulles to Taipei. This visit may have appeared to the Chinese Communists to be a reaffirmation of American support of the Nationalists, especially since it followed shortly after renewed Nationalist talk of a "counterattack" against the mainland.

[REDACTED] an attitude of suspicion exists over the possibility of some "plot" between the United States and Nationalist China involving intensified attacks by the latter against the mainland without overt American intervention. Secretary Dulles' visit

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and "informed" press opinion may well have heightened such an apprehension. Peng's 20 October order warned the United States against "utilizing" the Nationalists to infringe on Communist China's "sovereignty."

There are a number of other factors which may have predisposed Peiping to resume shelling. Claims by Nationalist officials and others that the cease-fire represented a "victory" for the Nationalists and was a sign of Communist weakness have irritated Peiping. The People's Daily editorial on 21 October stated that the Nationalists had become "cocky again" and that they had recently revived talk of recovering the mainland. Complaining that the Nationalists have "loudly clamored" that the cease-fire was a "victory" for Taipei, the editorial pointed to the Nationalist violation of the condition for suspension of shelling and declared, "Let them see what benefit the introduction of American naval vessels for escort really brings them."

Nationalist failure to show any propensity to enter into direct negotiations with the Communists, and US - Chinese Nationalist expressions of solidarity, caused the People's Daily on 21 October to state that the United States and Nationalist China are playing "a duet," with the United States expressing its desire to "reduce the Chiang army on Chinmen and Matsu," while the Nationalists re-emphasize the importance of maintaining troops on Chinmen and the other offshore islands.

The editorial stated that if the Nationalists continue

to reject negotiations with the Communists and "insist on obeying American orders, we are not to be blamed for taking all the necessary measures." Peiping commentary has expressed pique over public references by American officials to US naval forces ignoring Communist China's claimed 12-mile limit.

There is no statement in Peng Te-huai's 20 October order concerning whether and when another cease-fire will be declared. However, the door is left open for another suspension of shelling. The number of "obstinate" Chinese on the offshore islands and Taiwan is allegedly "very small," suggesting that extensive "punitive" action will not be carried out.

An article in the latest issue of Red Flag, biweekly theoretical journal of the Chinese Communist party's central committee, may herald the beginning of a major campaign to exploit the strait situation as a further incentive for production and other domestic goals. It stressed the present crisis as a spur to further productive and organizational efforts by the Chinese people, commenting that "the American aggressors act the bully" because Communist China has too little iron and steel, too little machinery, too little food, and is poorly organized.

Since the 36th warning, which preceded the suspension of the cease-fire and contained operational data and specific reference to escort activities, almost all the "warnings" have returned to a pattern of terseness. The latest, the 40th, accuses two warships of intruding into territorial waters in the Matsu and Pingtan area.

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The renewed shelling of the Chinmen Islands has so far appeared to be similar to that which preceded the cease-fire--harassing fire on the beach and airstrip areas, communications facilities, and targets of opportunity, with occasional concentrations being fired on the smaller islands. On 18 October, two days before the resumption of shelling, the Communists landed personnel on two small and previously unoccupied islands about three miles northeast of Chinmen, probably to improve their observation capabilities.

Chinese Nationalist Reaction

Chinese Nationalist officers, officials, and Minister of Defense Yu Ta-wei were jubilant as reports of the Communist artillery bombardment began to come in on 20 October. Ambassador Drumright believes the Chinese Nationalists probably are gratified with the renewal of prospects for a military showdown, rather than a negotiated resolution of the crisis or a continued stalemate.

The Nationalists have canceled scheduled resupply missions following the Chinese Communist resumption of fire and, since Chinmen supply stocks

were built up by the delivery of an estimated 40,000 tons of all classes of supplies during the 14-day cease-fire, no urgent need is seen for crash programs of air and sea resupply. The stocks of rations and artillery ammunition--the most important classes of supply--on Chinmen now are estimated adequate for 66 and 45 days respectively.

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A brief air clash occurred in the vicinity of Chinmen on 21 October.

The Nationalists apparently intend to exploit the situation for economic as well as political purposes. Vice President Chen Cheng told an American observer that it was necessary to keep the Taiwan economy stable as well as to keep the military forces strong. He said Nationalist China probably would need an extra \$30,000,000 to \$50,000,000 in economic aid this year from the United States because of the strait conflict.

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MIDDLE EAST DEVELOPMENTS**Iraq**

Rumors of further changes in the make-up of the Baghdad regime have persisted since the departure of former Deputy

Prime Minister Arif to Europe, ostensibly to be ambassador to West Germany. Baath party circles allegedly expect Arif to return to Iraq after a short tour of European countries,

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while army officers believe more military elements will enter the government. A remarkable reversal in Prime Minister Qasim's fortunes or thinking would seem necessary to bring Arif back to an official position.

Four more high Iraqi officials are scheduled to leave Iraq on 25 October, ostensibly as official participants in the inaugural flight on an Iraqi airways turboprop service to Morocco. One of them, Minister of State Rikabi, was an Arif supporter while two of the others are Kurds.

Communications Minister Baba Ali has said he plans to go on for a rest in Europe after the trip to Morocco. These tours and absences could be the occasion for further cabinet shifts, especially if, as has also been rumored, the Baghdad regime wants to make room for Kurdish leader Mustafa Barzani, who returned to Iraq on 6 October after 11 years in the USSR. Barzani has left the capital to visit his own village, but is expected to come back where the regime can at least keep an eye on him.

Meanwhile, the Egyptians continue to emphasize the danger of Communist influence on the new government. Most Iraqi officials, including the relatively conservative interior minister, Brigadier Yahya, have discounted the importance of Communist activity. However, Communications Minister Ali has stated he believes the greatest danger to the regime continues to be the leftist tendencies of some of its leaders, with the ultimate possibility of Communist domination.

Jordan

King Husayn is still considering a minor reshuffling of

the unpopular cabinet, to help ensure the stability of his government after the departure of the protecting British forces and the beginning of his own "vacation" in Europe. As a beginning, the justice minister resigned and two assistant ministers were shifted on 15 October. Meanwhile, the UAR-operated "Jordanian People's Radio" in Syria has warned Jordanian politicians against cooperation with any pro-Western government.

According to present plans, the last British troops should embark from the port of Aqaba about the second week of November, by which time Husayn will already have left, and the country will be in the hands of a regency council.

Lebanon

The week-old "era of good feeling" in Lebanese politics was interrupted by radical-Moslem irritation over the re-election of Adil Usayran as speaker of Parliament. The erstwhile rebel faction had supported Sabri Hamadah, the rebel "boss" of the Biqa Valley, and his failure to gain the post produced agitation in the Basta, with calls for the dissolution of Parliament and new elections. These demands echo those still being made by the UAR-supported Voice of Free Lebanon radio located in Syria.

Prime Minister Karami appealed for calm, but pressure for a dissolution seems likely to build up. This issue is one of several that could cause a split in Karami's four-man government of "national salvation," although the popular relief over the end of terrorism and fighting is a strong factor in keeping the government together.

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UAR

The Sahara Petroleum Company, the only large Western oil exploration company in Egypt, has officially surrendered its 86,000-square-mile concession in the Western desert after spending four years and over \$30,000,000 in a fruitless search for oil. While the lack of success was a major contributing factor in the group's withdrawal, uncertainty over the Cairo government's acts subsequent to an oil find played a large role in the company's decision to leave, made late last year.

The only remaining Western oil companies involved in Egyptian exploration and production are the Italian government-controlled monopoly Ente Nazionale Idrocarburi, the Belgium Petrofina group, and lesser Western companies. The UAR ouster of the Menhall Company operating in the Syrian region suggests that, rather than offer the Sahara concession to another Western group, Cairo will undertake exploration itself under the aegis of the General Petroleum Authority.

The UAR-Tapline negotiations, covering the Syrian claim for increased revenues

on the American-owned Saudi Arabian - Mediterranean pipeline have taken a turn for the worse, with Cairo characterizing the company's answer to its take-it-or-leave-it ultimatum as "full of fallacies." The extreme stand taken by the UAR in demanding increased revenues suggests that Cairo may expect a company refusal which could provide Nasir with another opportunity for a dramatic move against Western business interests in the UAR.

UAR Vice President Amir arrived in Moscow from Prague on 19 October and plans to stay six days. Soviet officialdom gave him the "red-carpet" treatment, and he met twice with Khrushchev, as well as with other top Soviet officials. His talks with the Soviet premier have been described in noncommittal terms, but there were indications that Amir would take up Egyptian complaints against Communist activity in the UAR and in Iraq, and differences over Soviet aid and the price of Egyptian cotton. Amir probably also sought additional arms with the argument that they are even more necessary now that Israel is acquiring more military equipment. 25X1

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PART II**NOTES AND COMMENTS**

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DE GAULLE CLARIFIES ALGERIAN POLICY

Premier de Gaulle may make a new inspection trip to Algeria early in November as a further assurance to the Moslems that the campaigning for the French National Assembly election on 30 November will be truly free. Any Moslem candidates openly advocating independence are nevertheless likely to encounter indirect obstruction from some French Army and European settler elements.

Although De Gaulle's first public invitation to the Algerian rebel leaders to negotiate was issued at his 23 October press conference, secret negotiations between Paris and the rebel National Liberation Front (FLN) were recently reported and described as progressing. These developments may point to an early announcement of a cease-fire agreement.

French Independent party leader Roger Duchet and other rightists maintain, however, that De Gaulle's directive on free elections was aimed largely at placating world and liberal French opinion. They view as "ridiculous" the belief that FLN-supported candidates might be elected. Duchet asserts that the army has the Moslem vote so well in hand that deputies chosen will align themselves with Information Minister Soustelle's rightist coalition.

In the army, open and direct defiance of De Gaulle's orders is unlikely, even from those elements who complained publicly against his order that they withdraw from the public safety committees. Nevertheless, there are various indirect means of effectively discouraging the activities of candidates the army dislikes. Many important military elements, although not accepting the settlers' concept of second-class citizenship for the Moslems, are known to share the settlers' repugnance for pro-independence propaganda.

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MOROCCO

The fall of the Moroccan Government may be imminent as a result of both growing discontent among extremist ele-

ments within the governing Istiqlal party and localized disorders created by an opposition group. Istiqlal extremists

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oppose the King's authoritarian role, particularly the royal control over the nation's security and armed forces, which they want subordinated to the appropriate ministries.

Left-wing elements represented by Abderrahim Bouabid, the dynamic vice premier and minister of the national economy, by Mehdi ben Barka, president of the Consultative Assembly, and by labor leader Mahjoub ben Seddik have been growing in influence and for several months have been trying to upset the present Istiqlal government headed by moderate Ahmed Balafrej. Yielding to extremist pressures, Balafrej has already toughened his attitude on the American air base issue and adopted a neutralist policy of nonalignment in international relations.

Criticism by the extremists within the Istiqlal has been heightened because of the King's recent alleged toleration of serious anti-Istiqlal activities by an opposition group in the Rif mountain area. This group, which has heretofore had only limited popular support, ran-

sacked Istiqlal offices and attacked party members; security forces were slow to arrive and restore order. 25X1 25X1

The replacement of the present moderate government by one with increased extremist influence, along with a reported gathering of armed anti-Istiqlal tribesmen, many of whom were former members of the irregular Army of Liberation, have raised concern in Paris that Morocco faces prolonged political instability. The French Government fears this may endanger the sizable French colony in Morocco and is reported having second thoughts over its earlier plans to withdraw the 15,000 French troops which still remain in Morocco. A French failure to continue troop withdrawals would, in the opinion of the American ambassador, be interpreted by Rabat as intransigence and signal a "marked deterioration in French-Moroccan relations."

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THE CYPRUS SITUATION

Efforts are continuing in Paris, aimed at obtaining Greek, Turkish, and British agreement to hold a formal conference on the Cyprus issue, but have reached an impasse over the identity and number of neutral participants or observers to be invited. Athens undoubtedly fears the combined influence of

London and Ankara, which it faced during the abortive London Conference in 1955.

The Greek Government is faced with increasing opposition at home, especially from the pro-Communist United Democratic Left. It will thus strive to gain maximum concessions, but is

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not likely to throw away what may be the last opportunity to halt or reverse the present trend endangering Greek aspirations regarding Cyprus.

In both Greece and Turkey, there is an air of suspense and anticipation over the outcome of the Paris talks. There is said to be "confused awareness" in all quarters of Athens that time is fast running out on the present phase of the Cyprus struggle, and that if this effort fails, there is little hope of any progress favorable to Greece in many months or years. In Turkey, resentment against the Greeks continues to be expressed by such actions as expulsions of Greek subjects

on various vague charges, but the government-inspired tension is easing.

On Cyprus, EOKA's new wave of bombings, murder, and sabotage now has involved the Turkish Cypriot community. Turkish leaders have cautioned against retaliation, but have warned of the danger of increased bloodshed. They have also complained to the UN and NATO that Greece is sending NATO arms to EOKA. Security forces are continuing their search operations with some success and may be expected to maintain their tough attitude, which followed the murder of a British soldier's wife.

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1958 CROP PROSPECTS IN THE SINO-SOVIET BLOC

Preliminary estimates indicate that the aggregate 1958 crop production in the Sino-Soviet bloc will be significantly above that in 1957 and will probably be the highest in the bloc's history. The expected increases in the USSR and Communist China will greatly overshadow decreases in the European satellites. The bloc's aggregate increase is more in grains than in root crops, oilseeds, fibers, and other crops. The increased grain available, besides permitting an increase of state reserves and livestock feed supplies, will allow further exports for political or economic reasons.

Even though largely the result of favorable weather, these agricultural successes will probably reaffirm the Soviet and Chinese leaders' belief in the correctness of their respective farm programs. In the case of the USSR, Khrushchev's latest speeches reflect his hope that successive good

harvests will soon permit further changes toward greater agricultural efficiency.

Soviet Union

Total Soviet crop production is likely to reach an all-time high in 1958. Although spring seeding was delayed some 10 to 15 days by cool, rainy weather, an analysis of subsequent weather conditions, observations by Western travelers, and Soviet press reports all indicate the likelihood of an excellent crop.

In August, Mukhitdinov, secretary of the party central committee, said: "The year 1958 will have a particularly good harvest; not less than 130,000,000 metric tons of grain will be harvested." While it is unlikely, in view of subsequent rainy weather during harvesting over much of the new-lands area, that the amount of grain suitable for storage from the 1958 crop will be as large as

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Mukhitdinov predicted, it is expected to be larger than the 1956 crop, which, with deductions of losses after harvesting, was estimated at 115,000,000 tons.

The outlook for other crops also is generally good, and a record harvest of sugar beets seems in prospect because of a large expansion in acreage and favorable growing weather.

Communist China

Peiping has claimed that its total output of food crops in 1958 will reach at least 350,000,000 tons, nearly double the amount produced last year. The wheat crop is declared to be about 40,000,000 tons, a 70-percent increase, and rice is estimated at 180,000,000 tons, a 108-percent increase. Similar gains have been claimed for corn, millet, potatoes, other food crops, and some industrial crops.

These figures are believed to be exaggerated. Weather was not particularly favorable in China this year, and although a great deal of labor was devoted to irrigation and water-conservancy projects and to the collection and application of organic fertilizers, it is doubtful such measures could achieve the increases claimed. These measures probably have made

possible substantial increases, however, and it is likely that China's original goal of 196,000,000 tons of food grains in 1958 will be exceeded.

European Satellites

Total crop production in the European satellites this year apparently will be smaller than in 1957. This decrease results mainly from reduced small-grain production, which dropped primarily because of unfavorable weather. The outlook for the major fall-harvested crops--corn, root crops, oilseeds, and fibers--is more favorable than for small grains, but production of these crops will also be below the 1957 level.

Production of crops in the northern satellites--Czechoslovakia, East Germany, and Poland--will not be greatly different from that in 1957. In Albania, Bulgaria, Hungary, and Rumania, however, production will be significantly below that of last year. Unseasonably hot, dry weather in May and June in many parts of the southern satellites reduced yields of wheat, rye, barley, and oats. Rainfall during the summer was also generally below average in those areas.

(Prepared by ORR)

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KREMLIN LAUNCHES SERIOUS CAMPAIGN AGAINST BUREAUCRATIC ABUSES

A renewed Soviet campaign against bureaucratic abuses and overstaffing is apparently now under way as Khrushchev moves in the period prior to the 21st party congress to line up his state machinery behind the "incredible" economic program he has promised will be launched at that time. Footdragging, malfeasance, and featherbedding have been clearly recognized

as impediments to the industrial reorganization and Khrushchev's timetable for "catching up with the West" in per capita production, and the Soviet leaders may have decided that severe corrective measures now have become necessary.

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the Soviet leaders are preparing a severe shake-up of the Soviet bureaucracy.

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One of the stated purposes of the industrial reorganization was to reduce the number of supervisory and administrative personnel by transferring them "into production," but it now appears that new staffs and offices have sprung up in place of those discarded. The Central Statistical Administration officially admitted that by January 1958 only 56,000 employees of the former ministries, departments, and other administrative organizations had been freed to work directly in industry.

Many administrators remained in Moscow by transferring to strengthened Gosplan units and other expanded agencies, while the staffs in the regional economic councils expanded rapidly. In many cases the sovmarkhoz staffs were filled by persons who previously had been directly involved in production, thus defeating one of the original objectives of the industrial reorganization.

The party central committee and the Council of Ministers have ordered all agencies and enterprise directors to

reduce, improve, and lessen the costs of administrative staffs, and the central press has condemned the tendency "throughout the whole country" to increase administrative staffs.

The malpractices of local officials have recently caused serious concern at high party levels to the extent, possibly, of putting a brake on plans to increase the powers of regional administrators. 25X1
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Soviet newspapers and journals have recently pinpointed cases of administrative malpractices and have sharply castigated the officials responsible. At least one sovmarkhoz chairman has been removed for malfeasance and several others have received party reprimands and may be slated for transfers to less responsible jobs. 25X1

THE AFRO-ASIAN WRITERS' CONFERENCE

The recently concluded Afro-Asian Writers' Conference in Tashkent was the USSR's most lavish bid to develop cultural relations with nonbloc peoples since the World Youth Festival held in Moscow in 1957. Extensive Soviet propaganda coverage portrayed the meeting as a "literary Bandung," uniting the writers of Afro-Asian countries against "colonialism" and "racism" and calling on all writers to condemn "injustice" and "exploitation."

The conference, from 7 to 12 October, was attended by

about 200 writers from 35 Asian and African countries and by observers from Europe and the Americas, with 150 correspondents accredited.

An extensive Soviet build-up for the conference was designed to emphasize Soviet kinship with the peoples of Asia and Africa. Radio programs and magazine articles discussed such subjects as the publication of Tolstoi's work in China and Gorki's friendly ties with India. Special magazine issues were devoted to Eastern writers, and the USSR published books ranging from

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classical Bengalese works to New Arab Poetry. An Afro-Asian Film Festival which opened in Tashkent on 20 August provided both a dry run for the main event and a vehicle for further Soviet cultural compliments.

In contrast to the 1956 Asian Writers' Conference in New Delhi, which Moscow was unable to turn into an anti-Western rally, months of careful preparation and the location of the conference inside the USSR resulted in thorough Soviet control. As an indication of the importance Moscow attached to the event, party presidium member N. A. Mukhitdinov, the Kremlin's top spokesman on Asian and African affairs, was dispatched to Tashkent, his birthplace, to present the opening speech.

Thereafter, Moscow attempted to play down Soviet domination of the proceedings, emphasizing anti-Western statements of nonbloc participants.

A discussion of the problems of children's literature centered on Indian criticism that children's books in India "still" emphasized the American Revolution instead of that of Russia or China. The primary task for writers of children's books throughout the world was to struggle against harmful American literature in the form of "poisonous" comic books.

The creation by the Tashkent conference of a permanent bureau of Afro-Asian writers with headquarters in Ceylon provides the USSR with yet another vehicle for continuing the Soviet aim of increasing cultural ties with the peoples of underdeveloped areas. An Afro-Asian Youth Conference sponsored by the Afro-Asian Solidarity Committee, which had an important role in preparations for the Tashkent Conference, is to meet in Cairo in February 1959. The next Afro-Asian Writers' Conference has been set for 1960 in Cairo.

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GOMULKA SPEECH SETS CONFIDENT TONE IN PRE-CONGRESS PLENUM

Polish party leader Gomulka, in a speech reflecting new confidence, told the 12th plenum of the Polish United Workers' party (PZPR) central committee on 15 October that under his leadership the party had defeated both its "revisionist" and "dogmatist" elements. The oft-postponed third party congress, which Gomulka admitted had been delayed because of adverse internal party conditions, now has been set for 10 March 1959. This fact reflects the first secretary's belief that his control now is sufficient to obtain formal ratification of his program.

Gomulka made it clear that he considers "revisionism" a greater danger to the party than "dogmatism." While the party has created a climate in which revisionism can no longer exist, Gomulka asserted, this does not mean the struggle against either this evil or dogmatism has ended. On the contrary, he said, the party's main efforts would be directed toward the "complete liquidation" of the revisionist tendencies still to be found in universities, among scientists, in the theater and motion pictures, and particularly among writers. He warned journalists they would have to make a positive contribution to the party program.

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With the completion of the party membership "verification" campaign, in which 206,000 members, 15 percent of the total membership, were dropped, Gomulka declared that the party had emerged from the "confusion of internal differences" which had seriously weakened it after his return to power in October 1956. He said the party now is ideologically consolidated, organizationally and politically stronger, and fully capable of carrying forward the task of "building socialism."

In waiting until next March to hold the congress, Gomulka apparently acted in part out of deference to the USSR, which is holding its own congress in January, and in part from a desire to be able to make the policies and decisions of his own congress after first observing those of the Soviet party. He asserted that Poland's major external objective is the strengthening of its ties with the USSR and the "strengthening of the unity of the camp of socialist states."

Gomulka said that delegates to the forthcoming congress would be elected not only by party provincial organizations, but also by all enterprises

employing more than 400 persons. By electing delegates at the provincial rather than district level, Gomulka is assured of more loyal representation than he would be likely to get from the lower party organs. By granting factory party units representation, he has further opportunity to pack the congress with loyal delegates who will be able to counter the uncertain elements controlling the party in the countryside.

Gomulka's speech strongly suggested that he plans to strengthen the party apparatus at the grass roots and make it more responsive to control from Warsaw--an effort to overcome what is probably his greatest weakness. He drew particular attention to the political activities of the clergy in rural areas as a special problem to be overcome by party organizations.

Gomulka made only a casual reference to Yugoslavia, citing his party's condemnation of the Yugoslav program as evidence of Poland's healthy attitude on antirevisionism. He made no reference to the United States during the entire 17,000-word speech--a noteworthy omission by any Communist leader at a party gathering.

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KADAR REGIME SEEKS TO STILL WESTERN CONCERN OVER HUNGARIAN ISSUE

Sensitive to continued Western attention toward developments in Hungary, the Kadar government is engaged in an active "election campaign" designed to create the illusion that the period of dealing with "counterrevolutionaries" has ended, and that the regime now has the support of the Hungarian

people. Behind these pretensions, the regime continues to try "counterrevolutionaries" in secret and to persecute other elements of the population. At the same time, it has launched a vigorous anti-American campaign in anticipation of attacks from the West when the Hungarian question comes up for formal

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debate in the UN General Assembly.

The forthcoming parliamentary election scheduled for November is long overdue, the last National Assembly election having been held in May 1953. Because of the revolution in 1956, however, the Hungarian parliament in May 1957 felt it necessary to extend its mandate for two years rather than face its "electorate." The fact that the Kadar regime now is prepared to risk holding an election, which could conceivably stimulate public disorders or a popular boycott, demonstrates the regime's confidence of its internal control, and the intensity of its desire to quiet external criticism of the regime.

The postrevolutionary attempt to tighten control over the populace continues. In a move to forestall possible disorders on the second anniversary of the revolution, several hundred precautionary arrests reportedly have been made, and the regime has arrested others for "criminal activities against the state." Over 50 percent of Hungary's lawyers have recently been disbarred, and the regime has intensified pressures and threats against the country's teachers.

Despite regime denials, unpublicized trials of "counterrevolutionaries" continue. Eight persons reportedly received death sentences recently for an attack on the Budapest party headquarters during the 1956 revolt. Others who the regime feels were given too lenient sentences in the days

immediately following the uprising are being retried and usually given increased sentences.

The government's white book on the "conspiracy" of Imre Nagy clearly implies that more members of the Nagy group will be punished, [redacted] 25X1

[redacted] some 25X1
of these individuals already have been secretly tried and given prison terms.

At the same time, an inflammatory anti-American campaign has been launched, which Hungarian Foreign Minister Endre Sik has made clear is connected with the scheduled debate on Hungary during the present UN General Assembly session. He stated in a speech at the UN that any discussion of the Hungarian question would bring on a counterattack by the Hungarians which would disclose American efforts to undermine the "social and state order" in Hungary.

To date the anti-American campaign has included espionage charges, violent press attacks, intense surveillance of the personnel of the American Legation in Budapest, and hints that the legation may again be ordered to reduce its staff. The regime has also used the campaign to isolate Hungarians further from the West. On 22 October the Hungarian Government abruptly rejected a request, contained in a note delivered by the legation, to permit Cardinal Mindszenty to attend the conclave of the College of Cardinals in Rome, accusing the United States of making a "fresh attempt" to intervene in the internal affairs of Hungary. [redacted] 25X1

NORTH KOREA MERGING AGRICULTURAL COOPERATIVES

Pyongyang has ordered a rapid reorganization of agricultural cooperatives into larger "amalgamated" units. The reorganization, which is to be

completed by 20 November, resembles in many respects the "commune program" in Communist China, but it does not yet

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appear to have such far-reaching social implications.

The reorganization was foreshadowed by remarks made by Premier Kim Il-sung last month, when he said that increasing the size of farm co-operatives would have the advantage of strengthening the local administrative structure while at the same time reducing manpower requirements for "non-productive work." Pyongyang feels the move will make it easier to raise the level of mechanization and to introduce modern farming techniques. It also undoubtedly sees in the new organization a way of strengthening party and government control in rural areas and of stretching the country's limited supply of able administrators and party cadres.

All cooperatives in each ri--the smallest unit in the administrative apparatus--will be merged, and the chairmanship of the ri people's committee and of the new cooperative will be held by the same person. The old cooperatives will transfer to the new ones, without

compensation, all jointly owned property, including production facilities, cultural establishments, and joint funds and credits. Consumer and credit co-operatives and health clinics in rural areas will also be transferred.

North Korean leaders may well believe that their wisest course is to follow China's lead in developing the rural economy as well as in expanding the pace of industrialization. Both countries succeeded in establishing cooperative agriculture with relative smoothness and great speed. It is probable that these successes have prompted Pyongyang and Peiping to move faster with the socialization of the countryside than has been the case in the Soviet Union and other bloc countries. Pyongyang may feel, too, that the present rural organization is inadequate to fulfill recently expanded economic goals. The prospect of a good harvest, moreover, probably reinforces the regime's confidence that the time is ripe for the reorganization.

(Prepared by ORR)

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PEIPING ESTABLISHES MOSLEM AUTONOMOUS REGION

Communist China has announced that an autonomous region for Hui peoples will be formally established in north-west China on 24 October. The Ningsia Hui Autonomous Region, located in one of China's principal Moslem areas, will be the fourth such region established at the provincial level. Its formation will serve to propagandize Peiping's claim of religious freedom and to promote closer ties with Middle Eastern Moslem countries.

The Hui autonomous region consists of a small part of former Ningsia Province, which

in 1954 was incorporated into neighboring Kansu Province. The area is inhabited by more than one sixth of China's 3,500,000 Huis, who are ethnic Chinese of Moslem faith and the only minority group classified on the basis of religion. They comprise 33 percent of the new autonomous regions' 1,822,000 population, which also includes Manchus, Mongols, and Chinese.

There are three other major autonomous regions in China: Inner Mongolia, established as an autonomous region in 1947; Sinkiang, established as a Uighur

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autonomous region in 1955; and Kwangsi, set up for the Chuang peoples in March 1958. Tibet, though still in the preparatory stage, is slated for eventual autonomy.

Peiping has found the facade of autonomy the best method of administering its minority groups in border areas. Although these regions are ostensibly self-governing, Peiping retains tight control over local governing bodies and gives final approval to all legislation. In addition, Peiping ensures that Chinese will outnumber the ethnic minorities in most areas and will hold all essential posts.

Creation of a Hui autonomous region will serve to illustrate Peiping's claim of

religious freedom for minorities "as long as they love their country." Because of their customs and traditional beliefs, Moslems have suffered under socialization of business interests and the land reform. In mid-January, Wang Feng, vice chairman of the Nationalities Commission, criticized the Hui Moslems for not claiming China as their motherland and condemned the belief that the "ideals of the Koran are ideal tasks to be fulfilled."

On 17 October--just a week before the scheduled inauguration of the Hui region--the Peiping People's Daily castigated Ma Chen-wu, deputy chairman of the All-China Islamic Association, as the "black sheep" of Moslem circles. The paper accused him of attempting

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to use the "cloak of religion" to carry out anti-Communist and antiregime activities in Ningsia. Peiping seems to be primarily concerned over Ma's attempts to set up a real republic for Hui peoples. Ma's

exposure on the eve of Hui autonomy appears designed to warn other Huis not to mis- 25X1
take the meaning of autonomy under the Chinese Communist minority program.

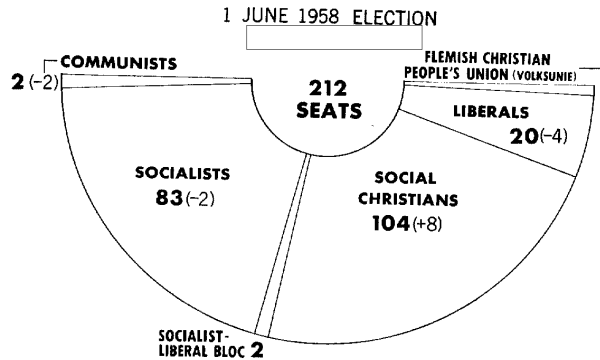
COALITION GOVERNMENT LIKELY IN BELGIUM

Premier Eyskens seems about to succeed in his effort to bring the Liberals into Belgium's minority Social Christian party (PSC) government, thus attaining the greater stability of a majority coalition. This effort was greatly assisted by the outcome of the 12 October municipal elections in which the PSC maintained its recent gains, while the generally conservative Liberal party suffered substantial losses and the Socialists made some gains at the expense of the Communists.

Formation of such a coalition has been a PSC aim since the indecisive parliamentary elections of 1 June, but neither the powerful Socialist party nor the smaller Liberals were receptive previously. The Liberals' refusal now would confront them with the threat of new national elections, probably with further losses.

The final decision on their participation is expected to be made at the meeting of the party's national council on 26 October.

Since taking office last June, the Eyskens' government has fulfilled its election promises on such questions as increased retirement pensions and parliamentary reapportionment in the Flemish area. It has also moved to reduce compulsory military service by initiating a volunteer re-

BELGIAN CHAMBER OF DEPUTIES

cruitment program, which is still in its early stages but has produced widespread Socialist charges that it will adversely affect Belgium's NATO commitments. As premier of a coalition government, Eyskens would probably continue much the same policies but with the greater firmness of assured parliamentary tenure. 25X1

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RIFT IN DANISH COMMUNIST PARTY

The long-standing rift within the small Danish Communist party (DKP) between the "Titoist" faction led by party chairman Aksel Larsen and the Moscow-oriented majority remains unresolved, with both groups maneuvering in preparation for a showdown at the party congress on 31 October. The leadership is likely to seek to avoid an open break, however, since expulsion of Larsen, the party's most popular figure, could at the next election deprive it of its six seats in the 179-member parliament.

Larsen widened the rift in the 12,000-member Danish party by his August memorandum supporting certain points in the Yugoslav party program. He attributed the steady decline of the Communist parties in Western Europe to an excessive dependence on Moscow and an uncritical acceptance of every action of the Soviet party. The executive committee, dominated by the hard-core group, issued a reply through the official party organ in effect branding Larsen a traitor. The USSR supports the more orthodox faction, and in a recent Pravda article accused Larsen of revisionism.

At the moment, attempts to reconcile the two factions appear likely to fail, and the minority Titoist group may

either defect or be expelled from the party. A spokesman for the orthodox group has also indicated it would not abide by a majority decision favorable to the Larsen faction, and he implied that his group would break away if this occurred. Larsen reportedly has gained ground among rank-and-file members in recent weeks, but his chances of remaining chairman are uncertain, since some three fourths of the 200 district leaders responsible for appointing congress delegates support the orthodox group.

Last week Larsen was dropped as head of the party's parliamentary group, and on October he was temporarily "suspended" from all party activity. The leaders of the orthodox group may, however, seek to avoid an open break and instead attempt to retain him as a controlled figurehead. He is the most popular figure in the party and the only one who gained his parliamentary seat by direct election in the 1957 vote. Under Denmark's system of modified proportional representation, the votes for the other five Communist deputies could be counted only after Larsen had won election directly. If expelled, he would be likely to form a party of "national" Communists, which would also receive the support of the sizable body of fellow travelers who have become disillusioned with the DKP.

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ARGENTINA WEIGHS PETROLEUM PROPOSALS

Since President Frondizi's announcement last July of a petroleum policy emphasizing the need for foreign credit and investment on a contract rather than a concession basis, Argentina has received numerous

Western offers, mainly from US companies, as well as several from the Soviet bloc. Completed contracts total more than \$200,000,000 with American firms, \$70,000,000 with a French group, and \$150,000,000 with a German

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company whose commitment is contingent on an American contract for \$700,000,000 reportedly near conclusion. An Argentine mission is in Moscow discussing the USSR's offer to supply \$100,000,000 worth of oil equipment on low-interest credit.

Frondizi's target is to triple current annual production of about 34,000,000 barrels by 1962, thereby reducing costly fuel imports--\$317,000,000 in 1957--and possibly developing a new export. Domestic crude production now supplies only about 37 percent of the country's present demand, and consumption is growing more rapidly than production.

To counter nationalist objections to the participation of foreign companies in oil development--an issue used against Peron--Frondizi has continued to stress the inadequacy of production within the framework of Argentina's critical financial situation and the consequent limitation of industrial development. He also proposed a petroleum law which would nationalize petroleum operations. The bill has been passed by the Senate and is before the Chamber of Deputies

in the current special session of Congress. A recent public opinion poll indicated strong support for Frondizi's oil policy, despite some criticism of the lack of public bidding for the recent contracts.

The contracts vary as to type, size, and duration. Some are to provide only services, such as repair, while others require the private firms to assume a large share of the risk. The \$700,000,000 American proposal even includes a \$90,000,000 credit for supplying oil imports. A British proposal, one of several still confirmed only by a letter of intent, would extend \$140,000,000 in credit for electric power and other industries as well as petroleum.

The Argentine negotiations in Moscow have received little publicity, although one press dispatch quoted Argentine officials as stating that the Soviet credit offer was "as much of a headache as a boon," especially since the Argentine oil fields are patterned on American or British standards. These considerations and the large Western offers may lessen Argentine interest in fully utilizing the Soviet credit.

(Concurred in by ORR)

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IMPLICATIONS OF THE BOLIVIAN REBELLION

The moderate government of President Siles put down an uprising of the rightist Bolivian Socialist Falange (FSB) on 21 October with few casualties and decreed a state of modified martial law. Rightist plotting is endemic in Bolivia and sometimes serves to unify the clashing left and moderate wings of the government party. The rift between the two wings is now unusually deep, however, and

the mobilization of the volatile civilian militias to preserve order could result in intraparty violence.

The coup attempt was probably precipitated by government allegations of FSB subversive plotting and a congressional recommendation on 20 October that the President take steps to preserve public order. FSB deputies objected violently

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that this resolution was tantamount to asking the executive to declare a state of siege and left the chamber.

party, opposes some of the required measures. A definitive split in the government party would be likely to result in considerable violence since most of the army and police incline toward the moderate wing of the party, while most civilian militia favor the left wing.

At the present time, the personal animosity between left-wing leader Juan Lechin and President Siles, who leads the moderates, threatens to combine with ideological differences to make the two factions irreconcilable. On 21 October, Lechin publicly blamed Siles' complicity for the coup attempt. Under these circumstances the present mobilization of both the party and the workers' militias in La Paz could result in new violence.

At the present time, the government must implement new and stringent economic stabilization measures if it is to receive new foreign credits to rectify its Central Bank account, overdrawn by \$600,000 as of 17 October. The left wing of the Nationalist Revolutionary Movement, the government

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THE CUBAN GENERAL ELECTIONS

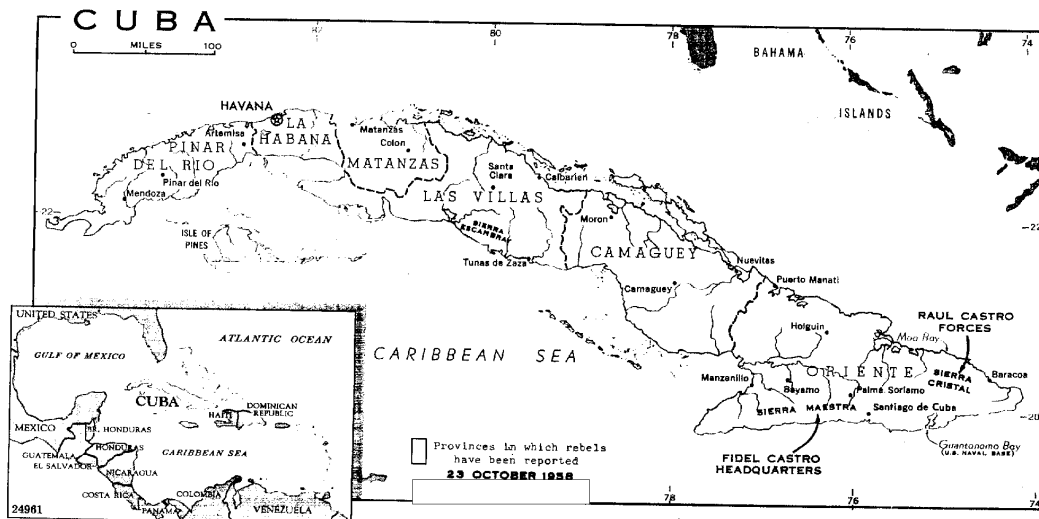
President Batista seems determined to hold Cuba's elections on 3 November despite increased efforts by Fidel Castro's rebels to prevent them. The generally anticipated victory of the government-sponsored presidential candidate will leave Cuba still confronted with the same political tensions which have kept it in civil war for two years.

The three nongovernment parties presenting presidential and congressional candidates are incapable of challenging Batista's strong political machine and have attracted little attention outside Havana. The general public has been apathetic to the political campaigning.

Rebel leader Castro has vowed to disrupt the elections

as well as to keep fighting any government not acceptable to him. Accordingly, revolutionary activity--now reported in five of Cuba's six provinces--has spread, and terrorism and counterterrorism have heightened tension throughout the island. Castro already is capable of disrupting the electoral process in rebel-dominated Oriente--Cuba's largest, most populous, and agriculturally most important province--and has recently attempted to secure enough of a foothold in other provinces to hinder elections. Two of the nongovernment candidates reportedly have requested Batista to cancel elections in southern Oriente and in three Las Villas municipalities where rebel elements exert control. Rebel bands have been attacking polling stations and have sabotaged

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transportation and communications.

Castro has publicly threatened death or capture for candidates who do not withdraw from the race by 30 October, and at least three candidates have already been killed. There are indications that the rebel movement may be planning some major action before or during the elections, and there are rumors that another general strike attempt has been set for 27 October. However, previous efforts to spark a nationwide uprising against the government

have failed. The rebels are known to be fitting out B-26's in southern Mexico and possibly other planes elsewhere, but the aircraft may be intended for delivering supplies to the Castro forces rather than for combat operations.

The government is stiffening its defenses to prevent widespread disorders on election day. Constitutional guarantees remain suspended, and many polling places might have to be established under military supervision. The government would thus be open to charges of rigging the vote.

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PROBLEMS OF THE NEW REGIME IN PAKISTAN

The new Pakistani regime established on 7 October by President Mirza and General Ayub Khan has stabilized the internal political situation and has experienced little difficulty in consolidating its position, but now is facing major administrative and economic problems. While both leaders continue to voice their intention to make "sweeping" reforms, reorganization of the

government bureaucracy and implementation of new policies apparently has been slowed by confusion and lack of direction. Evidence of competition between Mirza and Ayub is growing.

In separate statements to the press, Mirza and Ayub have outlined the major points in their program to "clean up the mess" in Pakistan. Land reform, increased food production,

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financial solvency, population control, refugee settlement, and overhauling of the educational and legal systems are the regime's goals. No specific proposal for action has been made, however. The public favor which the martial law administration enjoyed in its first two weeks appears to be waning somewhat as prices rise to their former level and shortages of essential commodities occur.

Meanwhile, a policy vacuum is hindering the effective operation of the government departments. Civil servants now in charge of ministries, accustomed to carrying out instructions rather than formulating policy, have shown a lack of initiative in assuming responsibility. The necessary reform measures probably cannot be implemented until highly qualified individuals are appointed

at the top level to run the ministries.

Mirza is continuing his effort to organize a national advisory council to perform this function. 25X1
25X1

Speculation over a possible rift between Mirza and Ayub has been stimulated by the fact that their statements often appear to be at variance. Moreover, as administrator of martial law, Ayub has been taking a far more active role than Mirza. While both men have tried to dispel rumors of differences, a sense of rivalry is evident. 25X1

25X1

NEW BURMESE GOVERNMENT TO PRESS FIGHT AGAINST INSURGENTS

The primary goal of General Ne Win's nonpartisan government, which will take office on 28 October, will be the return of a non-Communist parliament in elections now scheduled for next April. The new government is expected to place increased emphasis on the elimination of insurgency. Eight highly respected senior members of Burma's judiciary, civil service, and Rangoon University faculty, together with five political leaders from the ethnically non-Burman states who are selected by the State Councils, will head the 30 cabinet ministries now designated within the government.

Ne Win has placated the ethnic minorities who are not

otherwise assured of cabinet representation. U Chit Thoun, government chemist, represents the Mons, whose insurgent faction recently surrendered, and U Kar, Rangoon University lecturer in philosophy, is a Burmese Moslem of Indian extraction and can thus represent both the Indian and the Pakistani minorities of Burma.

The incoming government hopes to eliminate the Communist insurgents before the elections are held. Simultaneous with the announcement of the cabinet on 14 October, the outgoing premier, U Nu, stated that the generous amnesty offer now in effect will be withdrawn on 31 October. Burmese Army spokesmen have exerted

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heavy pressure for the immediate delivery of promised American military equipment for use during the dry-season military campaign from the present through April. In an address on 20 October to the commanding

officers of the Burmese armed forces, Premier Nu formally reminded the army that failure to restore law and order within six months could deal a "fatal blow" to the country's future democracy and independence.

25X1

POLITICAL DEVELOPMENTS IN THAILAND

The ruling Thai military group, under Marshal Sarit, on 20 October dissolved the National Assembly and suspended the constitution. The group established a "revolutionary council," presided over by Sarit. He will rule through a "transitional" cabinet, pending the drafting of a new constitution providing for a stronger executive and greatly reducing the influence of elected members of the legislature. All political parties have been abolished. These actions closely followed Sarit's return from the United Kingdom.

Since it overthrew the Phibun regime in September 1957, the Sarit group had great difficulty providing effective government. Sarit's poor health had been a major factor behind governmental indecisiveness, but his regime was also hampered by the elected civilian assemblymen with whom the military felt it necessary to work to meet constitutional requirements. These civilian elements were a continual source of discord and allegedly became increasingly insistent in their demands for money and other favors. A number of them were leftists whose appeals for a neutralist foreign policy and closer relations with Communist China blurred the image of Thailand Sarit wished to present to the West.

The "revolutionary council" placed great emphasis in its communiqués on the threat of Communism, and a roundup of suspected Thai and Chinese Communists has been started. In addition, 15 pro-Communist and extreme left-wing daily and weekly newspapers have been closed down, including three extreme leftist Thai-language newspapers. The latter in particular had seriously complicated



Sarit's relations with the West. While the "anti-Communist" crackdown is largely window dressing to justify the drastic action Sarit has taken, it will in any event set back the Communists in their attempts to create a groundswell of public opinion in favor of closer ties with the bloc.

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Sarit appears to have taken advantage of the present extraordinary situation to bring the faction of the ruling group led by General Prapat, who had been interior minister in the outgoing Thanom government, under more adequate control. Just before Sarit's return, there were persistent rumors of serious discord within the ruling clique.

Prapat has been excluded from the quadrumvirate which heads the "revolutionary council." He now apparently ranks number five in the ruling hierarchy. He had previously been considered almost on a par with Thanom.

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JAPANESE - SOUTH KOREAN NEGOTIATIONS

Prospects that Japan and South Korea might normalize their relations have been dimmed by a new South Korean threat to suspend negotiations because of Tokyo's refusal to recognize the "Rhee Line" as the limit of Korean territorial waters. Seoul's chief negotiator has publicly accused the Japanese of "insincerity" and asserted

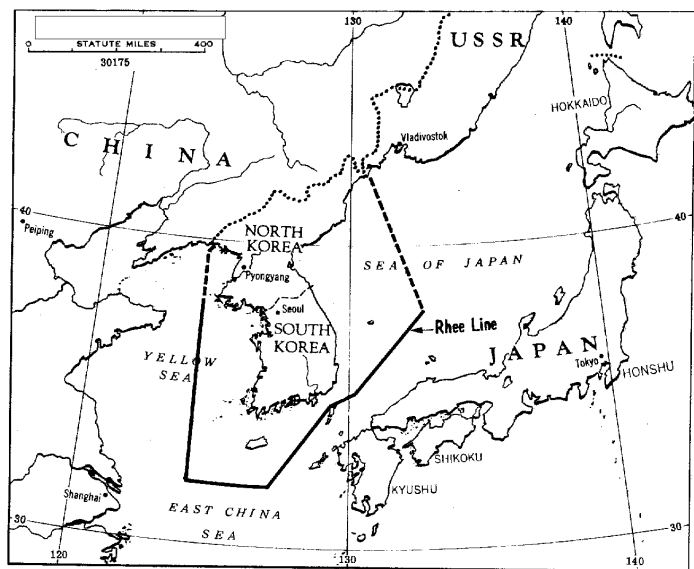
South Korea, in enforcing its claims, resumes large-scale seizures of Japanese fishing vessels, there would probably be demands in Tokyo for armed protection.

Minister Yu Tae-ha, recently elevated to head the Korean mission in Tokyo, issued the latest threat following a Japanese statement that

unilateral control by one country of an area on the high seas is not recognized in international law or practice. Tokyo proposed, however, that a joint committee be established to fix zones in which trawling would be prohibited until a fishery survey is conducted and conservation measures developed.

Negotiations between the countries were resumed on 15 April after a break of four and one half years. While progress was slow, agreement had been

reached on procedural matters and the release of certain detainees on each side, thus apparently clearing the way for substantive negotiations. Contrary to Japanese official belief,



that "any violation of the line will be dealt with severely." The Korean outburst has angered Japanese officials and may cause them to abandon their conciliatory position in the talks. If

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Seoul denies that Minister Yu's threat to suspend the talks was ordered by President Rhee.

Prime Minister Kishi is anxious to avoid complete suspension of the talks. The Japanese Socialists could use a suspension to criticize Kishi's foreign policy in general,

and in particular his alleged failure to persuade the United States to exercise a moderating influence on the South Korean Government. A continued stalemate also would increase Japanese public pressure for repatriation, over Seoul's objections, of several thousand Koreans in Japan who desire to go to North Korea.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****23 October 1958****PART III****PATTERNS AND PERSPECTIVES****ECONOMIC PROGRESS IN INDIA AND COMMUNIST CHINA**

A comparison of the pace of economic development in India and Communist China in recent years indicates that China is advancing much faster than India, despite substantial Indian progress. Industrial production rose faster in China, while agricultural output increased more rapidly in India. The difference in rates of economic growth in the two countries probably will remain at least as large during the next few years; India has reduced the goals of its Second Five-Year Plan (1956-61), while China probably will be able to surpass the more ambitious goals of its Second Five-Year Plan (1958-62).

Basic Factors

In any economic competition with India, Communist China has several inherent advantages.

China's rainfall is more dependable than India's monsoons. Although both countries have the basic resources necessary for industrial development, India's position is not as favorable as China's regarding nonferrous metals.

India's 14 official languages, none of which is spoken by a majority of the people, in addition to presenting numerous administrative problems are a serious threat to national unity. The various Chinese dialects are written the same throughout

the country despite the differences in pronunciation; they present a much less serious handicap.

India's sole apparent advantage is in its lower rate of population growth, and that may prove to be only temporary. China's annual rate of population increase, which was 1 to 1.5 percent in 1950-52, is estimated

ESTIMATED MIDYEAR POPULATION**(MILLIONS)**

	CHINA	INDIA
1952	575.0	367.9
1953	582.6	372.7
1954	591.6	377.9
1955	603.2	383.6
1956	616.5	389.7
1957	631.0	396.3
1958	646.1	403.4

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to have risen to 2.4 percent in 1957. India's rate of population increase, which was 1.25 percent annually in the 1940's is estimated to have risen to 1.8 percent in 1957. While India's rate of population growth probably will amount to over 2 percent in the early 1960's, it may not reach the Chinese rate until the middle or late 1960's.

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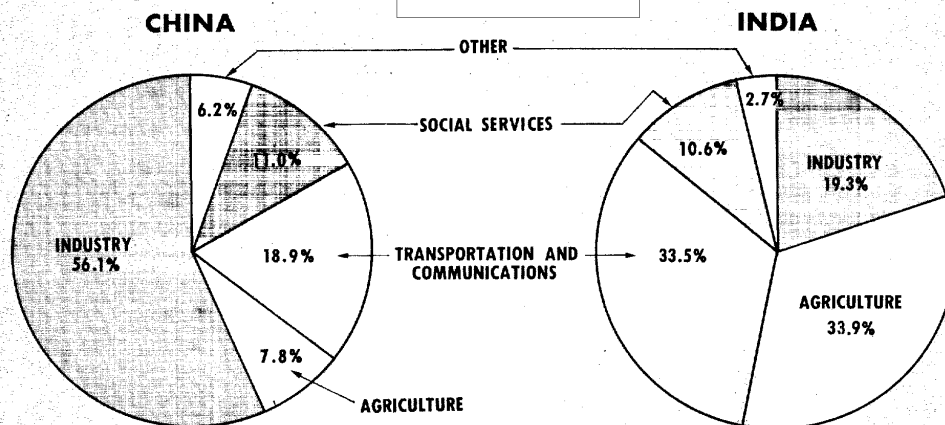
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Economic Planning

India instituted its First Five-Year Plan in April 1951, and China's began in January 1953. Data concerning economic development of China during the five years of its first plan and that of India during the last four years of its first plan and the first year of its second plan--April 1952 to April 1957--provide a basis for comparison of the two economies for nearly similar periods.

while China was able to concentrate on industrialization during its first plan, India's low level of agriculture production required major emphasis in that field.

In the transportation field, India has a decided advantage. With an area only 34 percent that of China, India in 1952 had 33,921 miles of railways, compared with only 15,057 miles in China. Railway equipment was in about the same proportion.

DISTRIBUTION OF ACTUAL GOVERNMENT INVESTMENT EXPENDITURES DURING FIRST FIVE-YEAR PLANS

GOVERNMENT INVESTMENT AMOUNTS TO ABOUT TWO THIRDS OF TOTAL INVESTMENT IN INDIA AND FOUR FIFTHS IN CHINA.

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China's 1952 agricultural production, on both an absolute and a per capita basis, was much higher than India's. This was partly the result of more adequate rainfall in China, but the principal factor was the use of better farming practices. In India, for example, most animal manure is dried and burned as fuel, whereas in China it is generally used for fertilizer.

Industrial production was very low in both countries, and each had a considerable potential for expansion. However,

Gross National Product

Gross national product (GNP), as measured by Chinese and Indian prices, has been growing by 7.5 percent a year in China compared with 3.9 percent in India. These figures considerably exaggerate China's rate of growth and somewhat understate India's, as Chinese prices overstate the value of heavy industrial goods--the most rapidly growing sector of China's economy--in relation to the prices of other products and Indian prices

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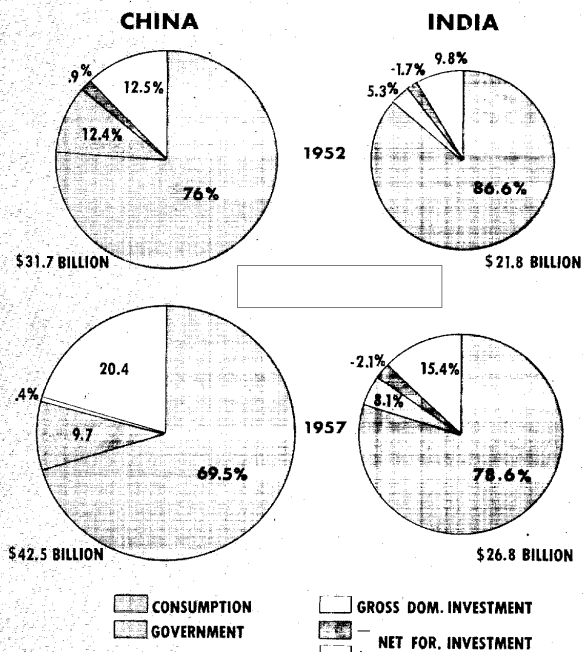
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understate the value of India's heavy industrial output, relative to the prices of other Indian products.

Corrected for these price disparities, GNP probably increased by about 6 percent for China and slightly over 4 percent for India. This would indicate that China's GNP rose from \$31.7 billion (converted at official exchange rates) in 1952 to \$42.5 billion in 1957--

1952 to \$27.8 in 1957, and where per capita GNP increased by 59 percent.

The more rapid increase in GNP in China stems primarily from its ability as a totalitarian state to restrain consumption and thus to devote a larger share of its total output to investment, although it appears also to have obtained a higher return, probably because it devoted a larger part of its capital investments to projects which went into production quickly. During the first plan China devoted an average of 17 percent of its gross national product to gross domestic investment, while Indian gross domestic investment during its first plan amounted to an average of only 12.1 percent of its gross national product.

GROSS NATIONAL PRODUCT BY DISTRIBUTION

Since Indian and Chinese prices are much lower than US prices, the figures derived by conversion at official exchange rates understate Indian and Chinese GNP. Estimated value at US prices would be about \$40 billion and \$68 billion respectively for 1957.

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about 34 percent--and India's from \$21.8 billion in 1951-52 to \$26.8 billion in 1956-57--about 23 percent. Per capita GNP increased from \$55 to \$67 in China and from \$60 to \$69 in India, or by 22 and 14 percent respectively. This compares with an increase of 68 percent in Japan, where GNP increased from \$16.5 billion in

1952 to \$27.8 in 1957, and where per capita GNP increased by 59 percent.

industrial goods accounts for a sizable part of the difference. Eliminating such overvaluation would result in a 75 to 80 percent increase in the net value of China's industrial production.

Production of most industrial products has increased more rapidly in China than in

Industrial Production

Concentration on industrialization enabled China to raise the net value of its industrial production by 109 percent between 1952 and 1957, compared with an increase of only 24 percent in India between 1951-52 and 1956-57. While it is clear that China's industrial production increased much faster than India's, China's overvaluation of heavy

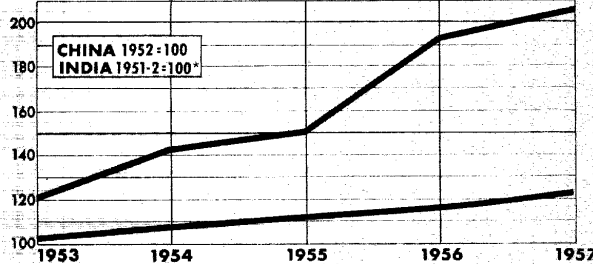
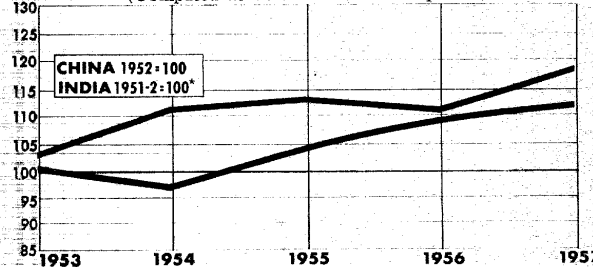
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India. Between 1952 and 1957 Chinese production of chemical fertilizers quadrupled, output of crude steel tripled, and output of crude oil, electric power, cement, and coal doubled. In contrast, Indian production of crude steel and coal increased by only 9 and 20 percent respectively. India made more impressive progress--although still less than China--in raising production of other commodities. Output of cement increased by 58 percent, crude oil by 70 percent, electric power production by 76 percent, and chemical fertilizers by 95 percent.

NET VALUE OF INDUSTRIAL PRODUCTION
(Computed at Indian and Chinese prices)**NET VALUE OF AGRICULTURAL PRODUCTION**
(Computed at Indian and Chinese prices)

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*FISCAL YEAR

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Peiping's most notable achievement was the rapid development of its machine building industry, which increased its production by about 450 percent during China's first plan. The industry now can produce large-scale precision machine tools, simple mining and metallurgical processing equipment, power station equipment, trucks, aircraft, and large locomotives. The industry has reached the point where it can satisfy between 70 and 80 percent of the machinery requirements of the second plan.

India's machine building industry also developed rapidly, with total production rising about 250 percent between 1952 and 1957. The industry now can produce precision machine tools, locomotives, trucks, aircraft, and some electrical, metallurgical, and mining equipment. India will remain dependent on foreign suppliers for most of its complex machinery and some of its simple machinery until the heavy machine building complex being developed goes into production in the 1960's.

ESTIMATED INDUSTRIAL PRODUCTION

	CHINA		INDIA	
	1952	1957	1952	1957
CRUDE STEEL (thou. metric tons)	1,349	5,235	1,603	1,742
COAL (mill. metric tons)	63.5	122.4	36.8	44.2
CEMENT (mill. metric tons)	2.6	6.7	3.6	5.7
ELECTRIC POWER (billion KWH)	7.3	19.0	7.4	13.0
CRUDE OIL (thou. metric tons)	436	1,443	244	415
REF. PET. PROD. (thou. metric tons)	502	1,359	247	4,507
ALUMINUM (thou. metric tons)	0	40.0	3.6	7.9
CHEM. FERTILIZERS (thou. metric tons)	194	800	271	530
COTTON TEXTILES (mill. linear meters)	3,773	5,000	5,405	6,718
FREIGHT CARS* (units)	5,792	6,000	7,500	18,250
TRUCKS (units)	0	7,000	0	11,892

PER CAPITA PRODUCTION

	1952	1957	1952	1957
CRUDE STEEL (kilograms)	2.3	8.3	4.4	4.4
COAL (kilograms)	110.4	193.9	100.0	111.5
CEMENT (kilograms)	4.5	10.6	9.8	14.4
ELECTRIC POWER (KWH)	12.7	30.1	20.1	32.8
COTTON TEXTILES (linear meters)	6.6	7.9	14.7	17.0

*Chinese cars produced in 1957 were generally of about 50-ton capacity; Indian cars are of about 22-ton capacity.

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Production of a few industrial products has increased more rapidly in India than in China. The outstanding example is the output of refined petroleum products, which increased by 1957 to over 17 times the 1952 level in India compared with a rise of only 171 percent in China for the same period. The rapid rise in India resulted from the construction, by Western oil companies, of three new refineries. In addition, the production of transportation equipment such as trucks, freight cars, and locomotives expanded more rapidly in India than in China.

Agricultural Development

In contrast to the rates of growth of industrial production, the value of agricultural output grew in the 1952-57 period by 19 percent in India compared with 13 percent in China. Since the price relationships in agriculture are similar, these figures are reasonably accurate measures of the production increases in the two countries. Despite its much smaller base, the total increase in food-grain production was

21,400,000 metric tons in India compared with an increase of only 13,000,000 metric tons in China. This was partly offset, however, by the higher Chinese output of tubers--largely potatoes--which increased by 4,000,000 metric tons in terms of grain equivalents, while India's very low production rose only slightly.

India's 31-percent increase in cotton production was greater than China's 26 percent, but production of tea and of sugar cane and beets rose more rapidly in China. This was chiefly because Indian production was at an extremely high level at the beginning of the period. Despite India's smaller population and more rapid advance, per capita production of foodstuffs--except sugar and tea--remained higher in China than in India, although the difference had been narrowed.

Transportation

Over three fourths of the total freight carried by the Indian and Chinese transportation systems is carried by the railways. Despite greater trackage and a larger number of locomotives and freight cars, Indian railways carry less than half the freight transported by Chinese railways. India's less impressive performance results in part from the stress placed on safety considerations by its railway regulations.

Second Five-Year Plans

India and China both have undertaken Second Five-Year Plans calling for a continuation of their rapid economic growth. China's plan (1958-62), as originally formulated, called for a growth

ESTIMATED AGRICULTURAL PRODUCTION

	CHINA		INDIA	
	1952	1957	1951-52	1956-57
FOOD GRAINS (mill. met. tons)	150	163	62.7	84.1
RICE (paddy)	75	85	32	42.9
WHEAT	22	25	6.2	9.2
OTHER	53	53	24.5	32
TUBERS (mill. met. tons)	18	22	.7	.8
TEA (thou. met. tons.)	82	125	290.8	302.3
SUGAR CANE & BEETS (mill. met. tons)	7.6	12.5	61.6	68
COTTON (thou. met. tons)	1305	1640	677	884

PER CAPITA PRODUCTION

	1952	1957	1951-52	1956-57
FOOD GRAINS (kilograms)	260.9	258.3	171.9	214.4
SUGAR CANE & BEETS (kilograms)	13.2	19.8	168.9	171.6

Note: In India the crop year generally begins in July, although for a few products it begins the following January. Chinese production figures are on a calendar year basis.

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RAIL TRANSPORTATION

	INDIA		CHINA	
	1951-52	1956-57	1952	1957
RAILWAY TRACK (miles)	33,921	34,744	15,057	18,384
LOCOMOTIVES (units)	8,572	9,563	3,313	3,850
FREIGHT CARS * (units)	215,798	236,689	60,000	86,000
FREIGHT CARRIED (bill. ton-miles)	29.5	40.6	37.4	83.6
PER CAPITA				
FREIGHT CARRIED (ton-miles)	80.9	103.5	65.0	132.5

*The contrast between these figures is somewhat modified by the fact that the average capacity of Chinese freight cars--old and new-- is about 37 tons, whereas that of Indian freight cars is 22 tons.

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rate of about 50 percent--measured in Chinese prices--approximately double that hoped for by India. Heavy industry is still scheduled to receive primary emphasis but with larger investments scheduled for agriculture.

India's plan (1956-61) calls for a doubling of both public and private investment and places greater emphasis on industry, particularly heavy industry. It proposes that national output be raised 25 percent, agricultural production by 18 percent, industrial production by 45 percent, and capital goods output by 150 percent. Annual production of crude steel is to increase from 1,700,000 to over 6,000,000 metric tons.

During the first year of the second plan, production in India rose more rapidly than scheduled, but a severe drought and a shortage of foreign exchange probably caused a small decline in national output during the second year. The shortage of foreign exchange has forced the government to reduce the level of planned expenditures by nearly 20 percent. While most reductions have been made in the relatively unproductive --for the short run--field of social services, enough have been made in other areas to make it unlikely that national output will increase by much more than 20 percent.

On the other hand, China, determined to push its economic development even faster than in the past, began its Second Five-Year Plan by launching an intensive drive for a "giant leap forward" in economic development. While all of its ambitious targets will not be met, substantial gains have been made as a result of this drive in the first three quarters of the year. As a result, goals outlined in the 1957 version of the plan are likely to be overfulfilled and later versions of the plan will probably raise the targets.

The greater rate of economic growth likely to be attained by China is particularly striking in view of the fact that China is scheduled to receive no new foreign aid during its second plan, while India is already assured of large-scale assistance. China's repayment of past debts and its foreign aid grants to other countries scheduled for the second plan period are estimated to be at least \$1 billion; remittances from Overseas Chinese are unlikely to be more than \$300,000,000. In addition, China probably does not have large enough foreign exchange reserves with which to finance a significant part of its plan.

India, on the other hand, has already utilized almost \$1.2 billion of its foreign exchange reserves and has to date received promises of at least \$2.5 billion in foreign assistance, which is to be made available during the second plan period.

This situation is partially offset, however, by the assured market and source China has in the Soviet bloc for its exports and for industrial equipment imports and technical assistance. To a significant extent, this reduces China's foreign exchange problem to one of mobilizing

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domestic resources. In contrast, India's exports must compete in a competitive world market and India is often unable to find buyers for its products.

Outlook

China, at least in the next few years and probably over a longer period, will "win" the

race with India for economic supremacy. There was never much question that this would be the case as far as total production was concerned in view of China's greater size. It also appears likely that per capita production will increase somewhat faster in China than in India, although much will depend upon future rates of population growth.

(Concurred in by ORR)

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REVIEW OF SOVIET FORCED LABOR

By the end of 1957, imprisonment was being used in the Soviet Union more as punishment for criminal acts than as an instrument of political repression and economic exploitation. The number of persons in "corrective labor" camps has dropped sharply, since 1953, and many camps have been closed or converted to other use.

Background

The use of forced labor as an instrument of political and social control has been sanctioned in Soviet penal codes and Communist doctrine. At the beginning of 1953, there were several million prisoners in forced labor camps throughout the USSR, with the largest concentration in the far north and far east. Prisoners were employed in a variety of enterprises, mainly in construction and mining activities. The forced-labor system was administered directly by the Ministry of Internal Affairs (MVD), which not only controlled the prison labor force but also managed the most important economic enterprises, employing such workers through subordinate chief directorates organ-

ized along industrial lines, such as Dalstroil--Chief Directorate of Construction of the Far North.

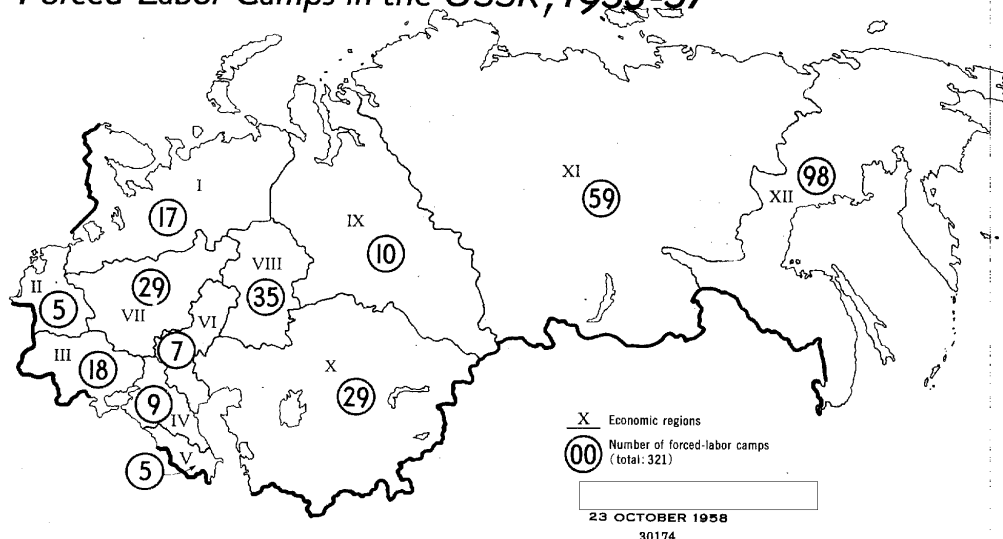
The administration of the camp system has undergone a radical transformation since 1953. Within a few months after Stalin's death, the MVD was divested of all of its extensive entrepreneurial activities based on the use of forced labor and of all responsibility for administering the far-flung system of "corrective labor" camps. Economic functions were assumed by the appropriate economic ministries, and the camps were taken over by the Ministry of Justice.

In 1954, however, the camps, along with some lumbering and agricultural enterprises, were returned to the control of the MVD. Beginning in April 1956, MVD control over the camp system was weakened through a series of reorganizations which resulted in a broad administrative decentralization of the police and the prison system. All forced-labor camps were placed under the direct control of newly created directorates of internal affairs

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Forced-Labor Camps in the USSR, 1953-57

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subordinate to oblast and kray executive committees and to the ministries of internal affairs in the republics.

It was decided in 1956 to convert all "corrective labor camps" to "corrective labor colonies," where the principal emphasis would be on rehabilitating the prisoners and returning them speedily to civilian life rather than on exploiting prison labor for economic purposes. Under the new system the prisoners are employed in prison workshops rather than hired out to civilian enterprises. The extent to which the planned conversion is being carried out is not known.

Scope of the decline

The number of persons in "corrective labor" camps has declined sharply over the past five years. Several million prisoners were freed as a result of six separate amnesties issued between 1953 and 1957, through the repatriation of foreign prisoners, and through a systematic review of individual cases.

The prison population probably had dropped to less

than two million by the end of 1957, and may even have been as low as a million. Along with the freeing of prisoners, large numbers of camps have been closed or converted to civilian use. Forced labor still existed in 1956 in the places that have long been its centers--Vorkuta, Karaganda, Irkutsk, Magadan, and Khabarovsk --but both the number of individual camps and the number of inmates had declined greatly. These former centers are being "rehabilitated" through large-scale influxes of free workers.

Prison labor has virtually disappeared from the gold-mining industry in the far east, where it had long been almost the only source of manpower. A substantial decline in the use of forced labor for mining nickel, coal, tin, tungsten, and copper also has taken place. The last vestige of MVD activity in the timber industry was removed in 1956, indicating that little or no prison labor is employed there, and the amount of prison labor now employed in railroad construction also appears to be negligible. Free labor is now being used on the type of large-scale development projects, such as the hydroelectric power

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projects at Bratsk, that would have employed prison labor in the past.

Reasons for Change

The change in Soviet policies with respect to forced labor results from a number of economic and political factors. About five or six years ago, Soviet administrators evidently became convinced that economic progress in a modern industrial state must depend on incentives rather than on coercion, and that therefore the huge prison labor force was a serious drag on over-all productivity. Administrative costs were high, and net output per prisoner was probably very low. Prisoners lived and worked under guards, most of whom were men in the prime productive-age groups and thus represented a significant manpower diversion from civilian employment.

In addition, there were other costs peculiar to the use of prison labor. Civilian enterprises and construction projects employing prison labor had to be surrounded by high fences and equipped with guard towers. Ex-prisoners report that there was an "appalling" indifference among the prisoners toward the materials and equipment with which they

worked, and that sabotage of machinery was an almost daily occurrence.

There was little or no on-the-job training, and the skills a prisoner may have acquired before his arrest were seldom used. Worker initiative was quite low. The existence of large pools of prison labor encouraged administrators to undertake developmental projects that were economically unsound, some of which were dropped before completion, with an attendant waste of materials and investment funds.

Even before 1953, Soviet policymakers were becoming aware of the liabilities the forced labor system has for a highly industrialized economy. With the death of Stalin and the subsequent removal of Beria, the Communist leadership was able to take steps to abandon the old system. With no serious threat to the security of the state and its leaders and no attempt to change the planned character of the economic system, the Soviet leadership has felt able to permit the sweeping transformations which have taken place. Barring a change in leadership, the alterations of the penal system are expected to continue along recent lines. (Prepared by ORR)

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HOUSING IN EASTERN EUROPE

Inadequate housing in the European satellites, perpetuated by the Communist priority on continuing rapid industrial growth, is the basic factor in the consumers' low living standard and will be the most difficult for the regimes to remedy.

Urban housing in all satellites except Czechoslovakia fails to meet minimum health requirements, and rural housing generally is as bad or worse. Discontent with housing, widespread among the urban population, is particularly acute in

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Poland, where it is also the most vocal.

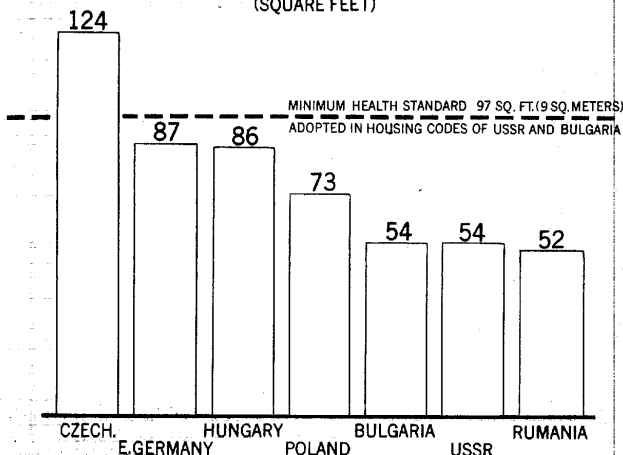
Urban housing in Bulgaria, Czechoslovakia, and East Germany will not improve appreciably for the next few years, and an even further depression of the low level of housing in Poland, Rumania, and Hungary is anticipated. Rural housing will remain relatively the same or will improve only slightly. Only a major reduction in industrial expansion would lead to improved housing, but in none of the satellite nations is substantial construction even contemplated until the 1960's, despite present intensified housing programs.

Postwar Developments

In all satellites except East Germany, housing had been unsatisfactory even before World War II, and major housing problems existed throughout Europe as an aftermath of the war. While West European countries are generally overcoming deficiencies through expanded residential construction, housing in the satellites has either remained inadequate or deteriorated further as a result of the Communist emphasis on rapid industrial growth. Large postwar increases in urban populations added to the pressing problem in the cities, many of which were damaged heavily in the war.

Urban housing programs under the first long-term plans, even though minimal to begin with, in most instances were underfulfilled. When projects regarded by the regimes as more important, such as factories, warehouses, and office buildings,

USSR AND EUROPEAN SATELLITES
AVERAGE LIVING SPACE PER PERSON IN URBAN AREAS
JANUARY 1958
(SQUARE FEET)



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fell behind schedule, labor and materials were diverted from construction of urban dwellings to them.

Under Communist rule, essential repairs and maintenance of existing dwellings have been almost completely ignored, thus accelerating losses of dwellings through deterioration. Moreover, the quality of residential construction has been very poor, with the result that many postwar dwellings already are in need of major repairs. Several years ago in Bulgaria the floor of a three-year-old building collapsed under a group of construction workers who were viewing a film on poor construction methods.

As a result of regime neglect, urban housing has deteriorated sharply in Bulgaria, Hungary, Poland, and Rumania. There has also been a minor decline in Czech housing despite popular demands for improvement. In East Germany housing remains far below the prewar level, although large population losses to the West have resulted in

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a slight improvement in recent years.

Present Conditions

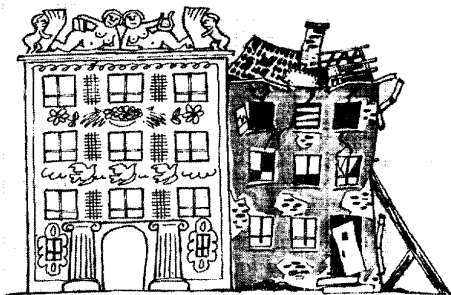
The poor quality of dwellings and lack of privacy resulting from overcrowding are problems daily impressed on city dwellers. In all satellites except Czechoslovakia, not only does existing urban housing not provide the standards sought by the population, but living space per person is less

privacy, and quality. Standards demanded by the population are very high, however, and complaints that dwellings are too small or out of date are widespread. The average amount of living space per person in urban areas is about 124 square feet, yet only 30 percent of Czech families are of a size that, by national standards, should be housed in the one- or two-room units which comprise two thirds of all Czech dwellings.

East Germany and Hungary rank below Czechoslovakia but above the other satellites in housing. Average living space per urban resident in East Germany has declined from 168 square feet in 1939 to about 87 square feet today, and almost the entire population considers its housing substandard. In Hungary, overcrowding in urban areas is universal. Although most Hungarians hope for a maximum of two people per dwelling room, the average today is 2.5, and an estimated 20-25 percent of urban families must share dwellings with outsiders.

Poland has the most serious housing problem of all the satellites because of the great gap between existing conditions and the people's expectations, though they are modest. Overcrowding is general and severe, with an average urban living space of less than 75 square feet per inhabitant. Sharing dwellings is the rule for all except the privileged class, as there are 140 families for every 100 units. Tens of thousands of urban families live in buildings which even the government recognizes as dangerous and unhealthy.

The poorest urban housing is in Bulgaria and Rumania. In both countries many, if not most, city dwellers have less than 49 square feet of living space. Dwellings of very poor quality are widely in use, and the sharing of dwellings by several families is almost universal.

1945**1956***Szpilki (Warsaw) 22 July 1956*

than the amount required by health standards. Several European nations, including the Soviet Union and Bulgaria, have adopted in their housing codes a standard of 97 square feet per person, a figure estimated by 19th century European hygienists as the minimum for good health.

Housing in Czechoslovakia is superior to that elsewhere in the bloc in terms of space,

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Throughout the satellites, housing in rural areas is generally no better and sometimes worse than that in urban areas. However, because war damage to rural dwellings was relatively slight and because the population in the countryside has not increased, housing standards have not declined as in the cities. Peasants have been able to provide for their modest housing needs by their own efforts, except in Poland where even rural housing has declined sharply since the Communist take-over.

Effects of Poor Housing

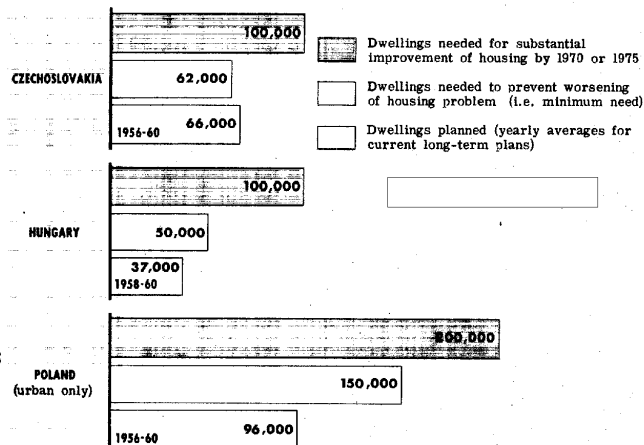
Substandard urban housing is a major factor in labor problems among the satellites. Poor housing reduces the productivity and increases the turnover of workers, especially in expanding industrial centers. Mining authorities in Hungary, for example, recognize that during 1957 two thirds of all coal miners lived in housing detrimental to their working efficiency. Moreover, a shortage of dwellings aggravates unemployment and labor immobility. Not only unskilled workers in industries of secondary importance are affected, but engineers, technicians, and foremen in essential industries as well.

Poor urban housing is a key factor in arousing popular antagonism toward the regimes and their policy of rapid industrial expansion at the expense of consumer welfare. Complaints against poor housing have led to incidents, especially in Poland. Discontent with rural housing also exists but is much less, largely because expectations of

peasants are less than those of city dwellers.

Discontent is general among doctors, engineers, and other professional people, who contrast present housing with that which their class enjoyed in prewar days. Most bitter are the prewar bourgeois, who receive the lowest housing priorities. Discontent is also acute among the young, who must often delay marriage for lack of housing and after marriage, must frequently live apart or with relatives in already cramped quarters. Another complication was noted by the press in Poland, which reported that a divorced couple, while awaiting separate accommodations, continued to live in the same room so long that they produced another child.

**CZECHOSLOVAKIA, HUNGARY, POLAND
DWELLINGS NEEDED AND PLANNED
(YEARLY AVERAGE - THOUSAND DWELLINGS)**



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Prospects

By 1956, satellite governments were seriously concerned about the consequences of continued neglect of housing, and the new long-term plans promised considerably greater attention to construction and repair. Yet these plans will permit no

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appreciable improvement in urban housing anywhere and will lead to a further decline in Hungary, Poland, and Rumania. The failure of the satellites to plan any significant improvement in urban housing for the next few years illustrates the limitations of construction resources in relation to the magnitude of the housing problem and the continued forced expansion of industry.

Although most satellites have promised dramatic improvement by 1970 or 1975, only a major reduction of the planned industrialization program would release sufficient resources for it. The rapid rate of decay of existing urban housing, greatly aggravated by regime neglect, is cumulative and will become an increasingly greater problem.

In sharp contrast to past practices, the satellites have recently begun assigning private persons and cooperative groups a greater share of housing construction and maintenance. While this measure may raise total construction somewhat--and incidentally will help shift the blame for poor housing from the regimes themselves--it is not likely to have any appreciable effect on the overall housing situation during the next few years.

The revised 1956-60 housing program in Czechoslovakia, if fulfilled, would prevent further deterioration and allow some slight improvement. An annual average of 66,000 dwellings is planned until 1960--all but 4,000 of which are needed merely to maintain present unsatisfactory levels. To achieve substantially improved housing by 1970, when the housing problem is sup-

posedly to be "solved," at least 100,000 new units a year would be needed.

Some quantitative improvement in East German housing may occur during the present plan, although the annual average goal of 68,000 new dwellings probably will not be met. However, only if the goal promised for the years following 1960 is achieved--100,000 annually--will real progress toward regaining the prewar level of housing be possible.

Housing in Hungary will continue to decline at least until 1961, and the problem will remain critical for many more years to come. Austerity following the 1956 uprising led to a cutback in the housing program to 1960. Although 50,000 new units a year are needed to prevent a further decline, and twice that many to bring substantial improvement in standards, only 37,000 will be built annually from 1958 to 1960.

Prospects for housing are bleak in Poland, which will be plagued by critical conditions for decades. Only 96,000 urban dwellings a year are promised under the present Five-Year Plan (1956-60), and this goal is likely to be somewhat underfulfilled. Some 150,000 units are needed annually--even more, if conditions are to be improved.

Critical conditions will prevail in Rumania indefinitely. To prevent still lower standards, a minimum of 40,000 dwellings a year is needed, whereas only 23,000 are planned for the period up to 1960. Although some progress in urban housing will be made in Bulgaria during the present five-year plan, extremely poor housing standards will also persist there.

(Prepared by ORR)

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ECONOMIC CONDITIONS IN GREECE

Greek foreign exchange holdings have decreased seriously since the beginning of 1957. A continuing decline could lead to a loss of confidence in the currency and a return to the chaotic conditions which prevailed before the stabilization program was begun in 1952. The Karamanlis government, which has taken some long-term remedial actions, may be threatened by economic instability before its unpopular measures involving financial restrictions become effective.

Basic Instability

The Greek economy, despite some progress since 1952, has failed to eliminate its basic weaknesses--serious underemployment, unemployment, and a uneconomic pattern of landholding. About one million people are underemployed in agriculture and 150,000 to 200,000 are un-

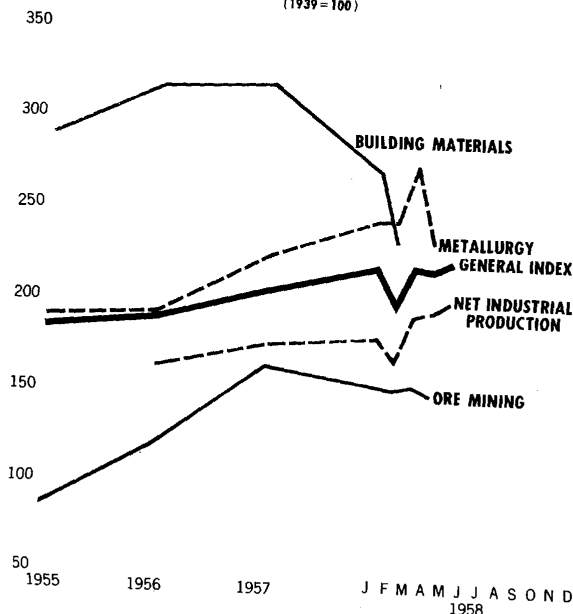
employed in urban areas, affecting over 25 percent of the labor force. Over two thirds of the family farms are less than 12 acres and usually in widely separated plots. Political pressures by Greek farmers have led to substantial government-supported price increases for farm products, and the rise in farm purchasing power in turn has caused an increasingly heavy demand for imports.

Since 1952 Greece has made significant economic progress, and the gross national product (GNP) has risen substantially, achieving a claimed increase of 9.5 percent in 1957 over 1956. In 1958, however, estimated growth in real terms was only about 5.5 percent. This slowing down in economic growth, coupled with increasing inflation and dangerously low foreign exchange reserves, may force the government to institute unpopular restrictive measures to avoid a financial crisis.

Despite a pressing need to solve the stability problem, the government apparently remains overly responsive to political pressures in its investment program. The three most productive economic sectors--agriculture, manufacturing, and the power industry--received only 32.6 percent of investment in total fixed assets in 1956 and only 30.6 percent in 1957, while housing claimed 45.8 percent of all investment in 1956 and 43.8 in 1957. The inflationary effect of these and other government programs is largely responsible for the steady increase in

**GREECE
INDEXES OF INDUSTRIAL PRODUCTION**

(1939 = 100)



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the money supply and the concomitant inflation.

Foreign Exchange Problem

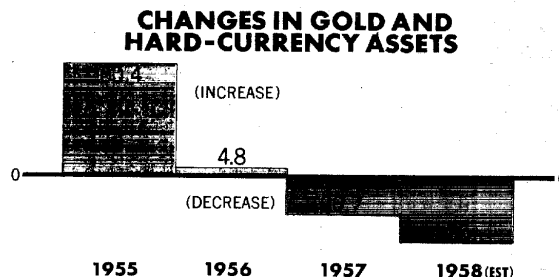
Foreign exchange reserves, which totaled \$213,000,000 at the beginning of 1957, are expected by the end of 1958 to fall to about \$140,000,000--sufficient for only three months' imports and substantially below the "safe" level of about \$180,000,000.

Thus far, however, the impact of this development has not been felt in the domestic economy.

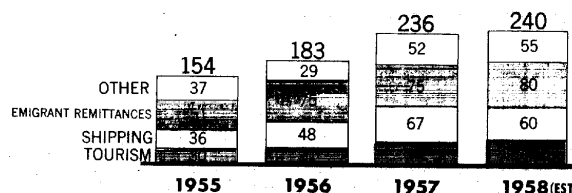
The confidence of the Greek population in its currency is a relatively recent innovation. Characteristically, and especially since World War II, the country has been subject to violent currency fluctuations which conditioned the public to hoard gold and other "real assets" and to accept periodic flights of capital as a fact of economic life. The drastic currency devaluation of 1953 and the resultant surface stability caused a marked increase in savings deposits--from about \$19,000,000 in 1953, to over \$180,000,000 by February 1958.

Since public confidence in the drachma is not ingrained, the government is reluctant to

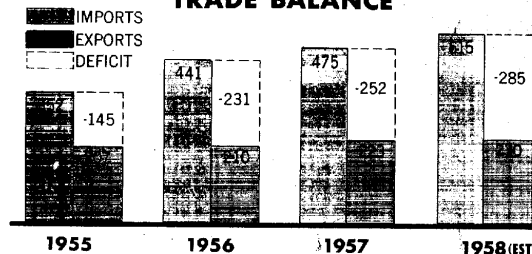
GREECE: BALANCE OF PAYMENTS MILLIONS OF DOLLARS



INVISIBLE EARNINGS



TRADE BALANCE



take any measures which might imply a weakening of the currency, hoping thereby to avoid precipitating a massive withdrawal of funds from banks. Athens construes such measures to include those relatively harsh moves necessary to protect the balance of payments from further deterioration.

Balance of Payments

Even under favorable conditions, Greek exports rarely cover half the cost of imports, and the country relies heavily on invisible earnings, chiefly emigrant remittances, income from transportation and shipping, and, more recently, tourist receipts. This year, it is

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estimated that total Greek exports will be only \$230,000,000, while imports will reach a record \$515,000,000. The expected \$240,000,000 in invisible earnings thus would still not close the gap.

Imports have risen steadily in the last three years and this year will probably be about 47 percent higher than in 1955. Exports have also increased, but by only 11 percent. Invisible earnings have risen constantly --up 56 percent over 1955-- but have failed to keep pace with the growing deficit in the balance of trade. American aid has provided a large measure of balance, but reduced aid utilization this year, coupled with a record level of imports, will result in a further loss of foreign exchange reserves.

Restrictive Measures

In an effort to halt the loss of foreign exchange, the Karamanlis government has adopted a number of relatively modest restrictive measures. Taxes have been levied on a number of nonessential imports, but the value of these items is less than \$70,000,000. Credit facilities for a wide range of imported commodities have been tightened, as has over-all bank credit. According to the Greek Government, these moves will not save any foreign exchange

this year, and there might even be a small additional loss because of tightening foreign credit. Next year, however, Athens expects savings resulting from these restrictions to total \$18,000,000 to \$20,000,000. These savings, nevertheless, do not appear adequate to stem a further loss in foreign exchange reserves.

Prospects

The Greek Government has taken several measures to increase production, stimulate foreign investment, and generally provide the means for increasing exports, but these are essentially long-term moves and not likely measurably to affect the present foreign exchange crisis. These measures seem inadequate, but Athens evidently believes that further restrictive measures would signal a return to the economic instability of earlier postwar years.

In any event, the present low level of foreign exchange holdings cannot long be maintained without risking a serious loss of confidence. Greece is seeking increased American aid aimed in part at the foreign exchange problem, and may also resort to foreign borrowing. It may also attempt to increase barter trade with the Soviet bloc in an effort to save scarce currency.

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ANNEX**SINO-SOVIET BLOC ACTIVITIES IN ITALY**

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1. General Bloc Policy:

The Sino-Soviet bloc's policy toward Italy is directed at weakening Italy's political and military ties with its NATO partners, disrupting its participation in integrated European economic organizations, and encouraging "independent" Italian policies which would allow de facto cooperation with Moscow on specific issues. The USSR wants and supports a strong Italian Communist party.

2. Bloc leaders have made little progress to date in achieving these goals because of the succession of strongly pro-Western Italian governments and the improved economic conditions resulting in part from American aid. During the past six months, Moscow revived the prospect of a friendship and peace treaty, which would eliminate continuing irritating issues in Italian-Soviet relations--such as reparations and missing prisoners of war. There have been relatively few major political moves by which the USSR could hope to maneuver Italy into adopting a position more independent of the Western alliance. Italy accepted American missile bases in September despite Albanian, Bulgarian, and Soviet threats to retaliate by establishing missile bases in Eastern Europe.

3. Diplomatic Activity:

The Soviet Union and all European satellites except East Germany have full diplomatic relations with Italy. Italy's official contacts with East Germany and Communist China are limited to commercial transactions covered by quasi-official trade and financial agreements. Communist missions

in Rome are staffed by approximately 330 bloc nationals, of whom slightly more than a third are Soviet.

4. Economic Activity:

During the first half of 1958 the value of total Italian - Soviet bloc trade dropped slightly, constituting about 4 percent of Italy's exports and 3 percent of its imports. In 1957 Italy's imports from the bloc had increased 34 percent over 1956 and its exports 43 percent; total trade was approximately \$228,000,000. This sharp increase paralleled the growth of Italy's world trade. It was influenced also by the need to import bloc petroleum during the Middle East crisis, and this in turn had stimulated Italian exports.

5. The USSR is, to a marked degree, Italy's chief bloc trading partner. Most of the remaining trade within the bloc is well distributed. A four-year Italian-Soviet trade agreement was signed in December 1957, calling for a trade turnover of \$122,000,000 between the two during 1958. The agreement contains a "multilateral lire" payments system which, if it works, will give Italy more freedom of action in dealing with the USSR. Although Italian officials have claimed that adherence to East-West trade controls cost the country \$100,000,000 to \$200,000,000 in the long-term agreement, it is doubtful that restrictions actually had such a pronounced effect. Italian trade with the bloc, like that of most industrialized states, has been limited by bloc failure to furnish Italy with acceptable import goods. Italy's imports include items which are vital to the economy, but there is no great dependence on the bloc as the sole or major supplier of these items. Soviet interest in trade

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expansion is indicated by higher bloc participation in Italian trade fairs than any others in Western Europe during the first half of 1958.

6. Cultural and Propaganda Activities: The number of delegations exchanged between Italy and the bloc rose to a half-yearly total of 76 in June 1958--one third more than during the comparable period in 1957. The emphasis during 1958 has been on professional groups and artistic delegations.

7. A Soviet-Italian Friendship Society was formed in Moscow on 7 February as one of a number of such bilateral societies formed in the USSR to pursue cultural diplomacy more thoroughly than did the old All-Union Society for Cultural Relations Abroad (VOKS). In Italy itself, front groups and sympathizers maintain approximately 11 cultural, professional, and friendship societies promoting relations with the bloc, and these have about 34 major branches. In addition, hundreds of local organizations exist down to the village level.

8. Bloc propaganda broadcasts in Italian to Western Europe currently total about 120 hours a week--28 hours by Soviet transmitters and the balance by East European. The latter includes the quasi-clandestine "Today in Italy," which is the Communist home service for Italy emanating from Prague. This is extensively jammed by Italy in the Rome area. At the end of 1957, Italian-language broadcasts totaled about 114 hours per week.

9. The bloc has made little effort to turn out Italian versions of its international journals or propaganda magazines, although these circulate in Italy in other languages. However, the new international

Communist journal, Problems of Peace and Socialism, is published in an Italian edition.

10. Subversive Activities: The Italian Communist party (PCI), with an estimated membership of 1,500,000, remains the largest Communist party outside the bloc and one of the largest in the world. Although its membership has declined from the slightly more than 2,000,000 claimed as late as December 1956, the party held its voting strength with over one fifth of the electorate between the 1953 and 1958 elections. At the same time, the Communists have been unable to prevent passage of government measures such as the Treaty for Western European Union. Since the rupture of the unity-of-action pact in 1956 and the increasing independence of the Nenni Socialists, the Communist deputies have found themselves isolated on measures such as EURATOM.

11. Furthermore, the party leadership is divided and the lower strata confused and apathetic in the wake of de-Stalinization and Soviet intervention in Hungary. Important personalities such as Senator Eugenio Reale, a party chief during the war and later in charge of the party's foreign trade operations, have defected. Ailing party chief Palmiro Togliatti has hewed to the international Communist party line since he clashed with Moscow in 1956 and has soft-pedaled his advocacy of "multiple roads to socialism." He is being criticized by many party elements, some of whom wish to see him replaced by Luigi Longo, deputy secretary general of the PCI.

12. In spite of these reversals the Communists still retain their greatest propaganda asset--their claim to be the principal protagonists of the working class--because of the failure of the two socialist parties to reunite. Their

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claim is bolstered by the Italian General Confederation of Labor (CGIL), which is dominated by Communists. It is the largest labor federation, embracing some 3,000,000 of the 5,000,000 organized workers in Italy's 20,000,000-man labor force. The CGIL's position is enhanced by the lack of cohesion of free labor unions, by the formation of company unions in several plants, including the powerful FIAT complex, and by a tendency of some elements of management to favor dealing with "more efficient" Communist unions rather than free labor organizations.

13. Current Communist paramilitary capabilities are undetermined in detail, although it has long been estimated by Italian military experts that Italian security forces are capable of putting down any Communist uprising that is not assisted from the outside. The Communists retain a powerful sabotage potential in the fields of communications and transportation and in northern Italian industries.

14. The current objectives of PCI propaganda and tactics are to break the influence of the ruling Christian Democratic party, to re-establish Nenni Socialist cooperation with the PCI, and to install a left-wing government which would carry out policies favoring the bloc and initiate economic and political changes that would allow further expansion of the PCI's strategic position. Strenuous efforts to exploit Italian fears of involvement in a nuclear war mark an intensification of the party's attempt to build a united front leading to the adoption of an "independent" foreign policy. The PCI exploited Soviet warnings in 1957 and again on the eve of the May 1958 elections in transparent attempts to frighten the Italian

people into supporting the Communist line. As obstacles to these objectives the PCI must reckon with continued economic stability, apathy in its own ranks, anti-Communist sentiments within the Nenni Socialist party, and the PCI's record of subservience to Soviet power interests.

15. Italian Reaction: The Italian Government maintains correct but cool relations with the USSR and Eastern Europe. Italy has for the most part firmly but consistently turned aside bloc initiatives for closer relations. The Fanfani government probably will try initially to undercut the Communist appeal in Italy primarily through socio-economic reforms rather than by police action. Previous governments have avoided discriminating too vigorously against the Communists, who command considerable political and parliamentary strength and champion causes with popular appeal.

16. Outlook: It is highly doubtful that the bloc will make progress toward its objective of a neutralized, "independent" Italy in the foreseeable future. Prospects for advancing Soviet foreign policy and the fortunes of the Italian Communist party will be influenced primarily by the ability of the government to carry out socio-economic reforms and to avoid a recession.

17. Despite general expansion of Italian trade with the bloc in recent years, which will probably continue, it is unlikely that Italy will ever become substantially dependent on this trade. The percentage of bloc trade in total Italian foreign trade will remain relatively small. The problems of finding markets in the bloc and suitable commodities to purchase from the bloc continues to limit trade.

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